GAO

United States General Accounting Office

Fact Sheet for the Honorable
Denny Smith, House of Representatives

September 1988

GOVERNMENT OFFICE SPACE

GSA Considers Federal Building Construction in Salem, Oregon, a Low Priority

GAO/GGD-88-133FS

GAO

United States
General Accounting Office
Washington, D.C. 20548

General Government Division

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September 28, 1988

The Honorable Denny Smith
House of Representatives

Dear Mr. Smith:

This fact sheet responds to your June 8, 1988, letter requesting a study on the economic feasibility of constructing a federal building in Salem, Oregon. In response to your request, we consulted officials of the General Services Administration (GSA) and examined documents describing space requirements in Salem and GSA's process for making capital allocation decisions. The results of our assessment are summarized below and discussed in more detail in the appendix.

At this time, GSA has no plans to construct a federal building in Salem, Oregon. GSA officials said that construction of a federal building in Salem would not be cost-effective for the government, a position reflected in GSA documents we reviewed.

GSA has two primary reasons for placing low priority on construction of a federal building in Salem. First, the amount of space GSA leases in Salem has declined since 1981. All federal agencies in Salem that rely on GSA for their office needs are currently consolidated in one building at a rental rate that is too low to support constructing replacement space to meet the government's requirements between now and 1997 when the lease expires. Considering the government's declining need for space in Salem and the current low rental rate, GSA officials believe they have sufficient reasons for not planning to construct a federal building in Salem, Oregon, at this time. Second, according to GSA, because capital investment funds are allocated to those projects offering the highest savings for the government on a national basis, the declining space needs and low rental costs in Salem make it a low priority relative to projects that will replace more expensive leased space in other localities.

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As agreed with you, no further distribution of this fact sheet will be made until 10 days from the issue date unless you publicly release its contents earlier. At that time, copies will be sent to the Administrator of the General Services

Administration and to others upon request. Should you have any further questions on this matter, please call Robert Taylor of my staff on 535-7550 or me on 275-8676.

Sincerely yours,

L. Nye Stevens

L. Nye Stevens
Associate Director

GENERAL SERVICES ADMINISTRATION CONTROLLED SPACE IN SALEM, OREGON

Representative Denny Smith asked us to determine if it would be economically feasible to construct a federal building in Salem, Oregon. To address that question, we reviewed documents describing how the General Services Administration (GSA) established priorities for its capital budget and made its analysis of space requirements in Salem. We talked to officials of GSA's Region 9 headquarters in San Francisco, California, and Region 10 in Auburn, Washington. We did not obtain information on federally owned or leased space in the Salem area that is not under GSA's control.

GSA Controlled Space in Salem, Oregon

GSA currently leases space only in the Equitable Center in Salem, which houses all federal agencies that depend on GSA for office space in the city. Six agencies, employing 198 people, occupy 34,645 square feet for which GSA pays $12.77 per square foot. GSA's lease for this space expires in 1997 and has no renewal option. According to a GSA official, there are no pending requests from any agency for additional space within the immediate vicinity.

In 1981, GSA prepared a Federal Facility Plan to analyze its space requirements in Salem. At that time, GSA considered constructing a building but concluded that its best option was to continue leasing space in Salem. We compared GSA's current space situation in Salem as shown by GSA's Public Buildings Service Information System with the 1981 space situation. We found that

-- total space leased by GSA in Salem decreased by 5,420 square feet, or about 14 percent, between 1981 and 1988;

-- the number of buildings leased or partially leased by GSA in Salem decreased from four to one, between 1981 and 1988; and

-- the amount of space leased within the Equitable Center decreased by 1,850 square feet, or about 5 percent, between 1981 and 1988.

All three of these trends illustrate a reduction in GSA's need for space in Salem since 1981.

Construction Funds Are Allocated Competitively

Because GSA's capital budget is limited and most of it is allocated for repairs and alterations of existing space, priorities must be established among construction proposals. GSA officials in Region 9 (San Francisco) said that regional priorities for acquisition of new facilities are established on the basis of the amount of space leased; the government's long-term space needs and size of the federal workforce located in a community; and the rental rate in relation to building construction costs. Even if a proposed project is justified in terms of regional priorities, it must still compete against priority projects in other regions for scarce building construction and purchase funds.

As previously mentioned, the current amount of space leased in Salem has decreased since GSA's 1981 study of its space situation. GSA officials characterize Salem's situation as stable and foresee no pressing need to accommodate a growing workforce in the community through acquisition of new buildings.

Furthermore, GSA regional officials consider the current space provided in the Equitable Center to be quality space with an attractive rental rate. On the basis of an analysis of construction costs throughout the region, GSA officials concluded that it is not cost-effective for GSA to construct space in communities with annual lease rates below $18 to $20 per square foot. Because the current annual lease rate at the Equitable Center of $12.77 per square foot will provide GSA with low lease costs for another 9 years, GSA does not consider Salem to be a high-priority community for constructing government-owned space.

GSA' fiscal year 1989 new construction budget request includes nine projects. Of these, the only one west of the Mississippi River is the construction of a new federal building in Oakland, California. GSA identified the San Francisco Bay Area as one of the costliest lease markets in America, with over 10,000 employees housed in over 2 million square feet of leased space. In 1986, GSA received congressional authorization and funding for a new federal building in Oakland to reduce its increasing lease costs in that area. GSA estimates that $20 million in leasing costs will be saved in the first year of occupancy after completion of the new 1-million-square-foot building in Oakland. It is estimated that about 4,300 employees will be moving into the new building and out of leased space costing from $18 to $25 per square foot.

In contrast, GSA officials said they do not place a high priority on the allocation of construction and acquisition funds for Salem because the total rental costs for leased space there are considered to be relatively low and the space needs are not increasing.

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